

Decision **05-05-015** May 5, 2005

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of San Gabriel Valley Water Company (U 377 W) for Authority to Implement a Low-Income Rate in its Los Angeles Division in Compliance with Decision 02-10-058 in Application 01-10-028.

Application 03-04-025
(Filed April 24, 2003)

OPINION GRANTING RATE RELIEF FOR LOW-INCOME RATEPAYERS

Summary

In this decision the Commission grants San Gabriel Water Company (San Gabriel) authority to implement a rate relief program for its low-income ratepayers in its Los Angeles district.

Background

In Decision (D.) 02-10-058, the Commission rejected San Gabriel's low-income rate proposal for its Los Angeles district and ordered San Gabriel to file an application with a low-income water rate proposal that "...fully and completely addresses the matters discussed in this Order and contained in Pub. Util. Code § 739.8 including but not limited to: availability of the program to all

low income families served with water directly or indirectly¹ by San Gabriel; costs of the program; conservation effects of the program; and ratemaking treatment of program costs.” In D.04-07-034, San Gabriel was ordered to implement in its Fontana district an “identical” low-income rate relief program to the one authorized by the Commission for its Los Angeles district.

On April 22, 2003, San Gabriel filed this application in compliance with the order contained in D.02-10-058 seeking Commission authorization to implement “California Alternative Rates for Water (CARW),” designed to offer discounted rates to San Gabriel’s low-income customers.

CARW is patterned after the CARE program offered by electric utilities to assist its low-income customers. San Gabriel proposes to reduce monthly service charges by 50% for all qualifying customers, while maintaining the same quantity rate. The program will be available to applicants (1) in a residential water classification, (2) living in a single family dwelling or duplex, (3) being served through a 1-inch or smaller meter, and (4) meeting the income criteria established each year by the Commission.

San Gabriel assumes a 45% participation rate in the program and all service charges are proposed to be increased proportionately in order to offset the expected revenue loss. San Gabriel further requests a balancing account to

¹ Direct customers are those who have signed up for water service, have a water meter, and receive a bill from San Gabriel. Indirect customers are those who use water provided by San Gabriel through a master meter, but do receive a water bill from San Gabriel—such as residents of master metered dwellings such as apartment buildings.

track the actual discounts provided during the rate case cycle for later true-up, as well as to track any other costs of the program.

For 2003, San Gabriel estimates that existing rates provide service charge revenues of \$10,764,560 and that CARW discounts will total \$2,065,016. The representative impact on monthly bills will be as follows. For 5/8-inch CARW customers, monthly bills will decrease from \$43.34 to \$38.46 (\$4.88 decrease or 11.3%). For 1-inch CARW customers, monthly bills will decrease from \$61.45 to \$49.24 (\$12.21 decrease or 19.9%). Conversely, for 5/8-inch non-CARW customers, monthly bills will increase from \$43.34 to \$45.66 (\$2.32 increase or 5.4%). While 1-inch non-CARW customers will see their bills increase from \$61.45 to \$67.23 (\$5.78 increase or 9.4%).

San Gabriel will require customers to file an application and eligibility declaration on a Commission approved form. Renewal of eligibility will be required every two years. Income requirements will be based on household size and will follow Commission approved requirements for the CARE program for electric utilities.

Discussion

In our examination of San Gabriel's proposal, we find that it meets the policy directives contained in both Pub. Util. Code § 739.8 and the ordering paragraphs of D.02-10-058. It extends low-income discounts to ratepayers only, instead of to all residents. It promotes water conservation by offering a discount to the service charge only, and leaves the quantity rate unchanged. And it offers an innovative ratemaking approach that enables the Commission to evaluate the

program's effectiveness without increasing rate risk for the customers and the utility.

§ 739.8 requires the Commission to consider and implement low-income programs for only ratepayers. § 739.8 states, "(b) The commission shall consider and may implement programs to provide rate relief for low-income ratepayers, and (c) The commission shall consider and may implement programs to assist low-income ratepayers in order to provide appropriate incentives and capabilities to achieve water conservation goals."

In the spirit of § 739.8, we ordered the parties in this proceeding to propose programs to deliver low-income discounts to indirect customers such as residents of multi-family dwellings. While some innovative programs were proposed such as (1) requiring the electric utilities to include the water discount on the electric bill, and (2) issuing discount based coupons to tenants to pay rent, each proposal had deficiencies rendering them unworkable. In our investigation, data provided by Southern California Edison Company (Edison) showed that up to one third of San Gabriel's low-income residents could be left out from receiving water discounts as they were not direct customers of San Gabriel.

While we were unable to determine an equitable way to provide every low-income San Gabriel resident a discount for water, we are under no obligation to do so. Since two thirds of San Gabriel's customers are eligible for the discount, there is no just or compelling reason to deny these low-income customers a discount. While we acknowledge that service charges will increase for master meters serving multi-family dwellings, the record in this proceeding establishes no quantifiable correlation between monthly rents and a multi-family

dwelling's water bill. As such, the argument that low-income residents of multi-family dwellings will somehow "subsidize" other single-family low-income customers is not valid. Therefore, we accept San Gabriel's CARW program as proposed. We find CARW fair and equitable and in full compliance with § 739.8 requirements.

San Gabriel's proposal calls for service charge discount of 50%, while quantity rates are to remain unchanged. By lowering the readiness-to-serve charge only, there is no adverse incentive to use water unwisely. Conversely, applying a discount to the total bill and/or to the quantity rate, would not promote conservation. Hence, we find San Gabriel's proposal to discount the service charge only reasonable and consistent with § 739.8.

San Gabriel proposes to establish a companion balancing account to track the costs of CARW until sufficient experience with the program is attained such that costs associated with CARW can be reliably forecast in a general rate case proceeding. Specifically, San Gabriel proposes that the following entries be made, on a monthly basis, to such a balancing account; (1) the recorded reduction in billed service charge revenue (debit), (2) program costs for incremental activities associated with the program (debit), (3) one-twelfth of the annual Commission adopted revenue reduction due to the reduction in service charges (debit, For 2003, San Gabriel calculates this amount to be \$2,065,016), (4) franchise fee and uncollectible expenses (credit), and (5) monthly interest based on the commercial paper rate as published in the Federal Reserve Statistical Release, G.13, or its successor publication (debit or credit). San Gabriel

recommends that such balancing account terminate upon the issuance of a final general rate case decision for the Los Angeles district.

We find San Gabriel's proposed balancing account to be reasonable as it appears to accurately reflect the cost / savings associated with the CARW program. But instead of a balancing account, we will authorize San Gabriel to establish a memorandum account using the same entries, so that we preserve our right to audit this account for reasonableness at the next general rate case proceeding. At that time, we will also determine the appropriate amortization schedule of this account.

In summary, we find that San Gabriel's CARW proposal meets the requirements set forth in § 739.8, as well as the policy directives contained in the ordering paragraphs of D.02-10-058. It extends low-income discounts to ratepayers, it promotes water conservation, and it offers a revenue neutral balancing account mechanism.

San Gabriel filed this application two years earlier. Since that time, the Commission has issued one decision and has accepted one application from San Gabriel that affects this proceeding. In September 2004, San Gabriel filed a general rate case application (A.04-09-005) for its Los Angeles district for 2005, 2006, and 2007. Evidentiary hearings have concluded and a proposed decision is expected shortly. Because the current proceeding had not been resolved at the time of filing, San Gabriel did not propose a low-income rate in A.04-09-005. In July 2004, the Commission issued D.04-07-034 in A.02-11-044—Fontana district general rate case proceeding for years 2004, 2005 and 2006. D.04-07-034 Ordering Paragraph No. 18 states "San Gabriel shall, when the Commission adopts such a

program, implement a Low Income Rate Program in Fontana Division identical to that to be authorized by the Commission in Application 03-04-025, for its Los Angeles Division.”

In light of this, the Commission will require San Gabriel to file an advice letter to implement a CARW program for both its Los Angeles and Fontana districts within 60 days of this order. We will require the Water Division to review the advice letters for compliance with this order and reasonableness, before bringing them to the Commission for approval.

Categorization and Need for Hearings

This proceeding is categorized as ratesetting. No party has objected, and the categorization shall not be changed. This proceeding was preliminarily designated as requiring hearings. The record of the proceeding is comprised of numerous filings by the parties as well as a prehearing conference transcript. The record provides sufficient information for us to evaluate the issues presented. No hearing is necessary.

Comments on Draft Alternate Decision

On March 23, 2005, the draft alternate decision of President Peevey was filed and served on parties in accordance with Pub. Util. Code § 311(g)(1) and Rule 77.6 of the Rules of Practice and Procedure. No comments were received.

Assignment of Proceeding

Geoffrey F. Brown is the Assigned Commissioner and Maribeth A. Bushey is the assigned ALJ in this proceeding.

Findings of Fact

1. San Gabriel filed this application in response to the order contained D.02-10-058.
2. San Gabriel proposed for its Los Angeles district a low-income rate relief program known as “California Alternative rates for Water,” or CARW.
3. The CARW program meets the directives contained in Pub. Util. Code § 739.8, as well as the ordering paragraphs contained in D.02-10-058.
4. The parties have thoroughly reviewed numerous proposals to extend low-income relief beyond San Gabriel’s ratepayers, but all of these proposals have been shown to be deficient and/or inequitable.
5. No hearing is necessary.

Conclusions of Law

1. The Legislature directed the Commission to “consider” programs that would provide rate relief to low-income water utility customers in Pub. Util. Code § 739.8.
2. San Gabriel submitted a low-income rate relief program known as CARW. San Gabriel’s CARW proposal is just and reasonable and it meets the requirements of § 739.8.
3. This proceeding should be closed.
4. Today’s decision should be effective immediately.

O R D E R

IT IS ORDERED that

1. San Gabriel Valley Water Company (San Gabriel) is authorized to file in accordance with General Order 96-A an advice letter with tariff schedules implementing its "California Alternative Rates for Water," or CARW, low-income rate relief proposal for both its Los Angeles and Fontana Districts, based on the current tariff rates in effect on the date of this order. The CARW tariff schedules shall apply to service rendered on and after their effective date.

2. The advice letter filing for CARW rates shall be made within 60 days of the date of this order and shall include appropriate workpapers. The advice letter shall be reviewed by the Water Division for conformity with this decision. CARW rates shall go into effect upon Water Division's determination of compliance, reasonableness, and the Commission's approval. The Water division shall take notice of San Gabriel's pending general rate case Application No. (A.) 04-09-005 and coordinate San Gabriels's CARW filing with its new rates for 2005. The Water Division shall inform the Commission if it finds the proposed increase does not comply with this decision or other Commission requirements.

3. San Gabriel is authorized to implement a CARW memorandum account as detailed in today's decision for both its Los Angeles and Fontana districts. This memorandum account will be audited for reasonableness at the next general

rate case proceeding for each district. At that time, we will determine the appropriate amortization schedule of this account.

4. The Executive Director shall serve this decision to the service lists for A.01-10-028, A.03-04-025, A.02-11-044 and A.04-09-005.

5. This proceeding is closed.

This order is effective today.

Dated May 5, 2005, at San Francisco, California.

MICHAEL R. PEEVEY
President

SUSAN P. KENNEDY
DIAN M. GRUENEICH
Commissioners

I dissent.

/s/ GEOFFREY F. BROWN
Commissioner

I abstain.

/s/ JOHN A. BOHN
Commissioner